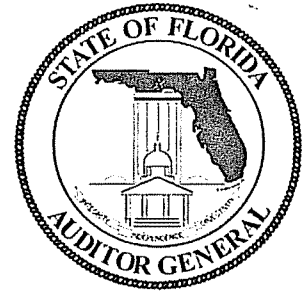




AUDITOR GENERAL
WILLIAM O. MONROE, CPA



CLAY COUNTY
DISTRICT SCHOOL BOARD
Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended June 30, 2005

Clay County District School Board members and the Superintendent of Schools who served during the 2004-05 fiscal year are shown in the following tabulation:

	<i>District No.</i>
<i>Carol A. Vallencourt, Vice-Chairman from 11-16-04</i>	1
<i>Carol Y. Studdard, Vice-Chairman to 11-15-04, Chairman from 11-16-04</i>	2
<i>Charles E. Van Zant, Jr.</i>	3
<i>Charles T. Fields to 11-15-04</i>	4
<i>Wayne Bolla from 11-16-04</i>	4
<i>Lisa B. Graham, Chairman to 11-15-04</i>	5
<i>David L. Owens, Superintendent</i>	

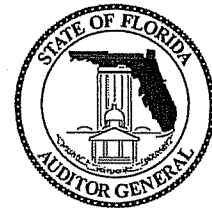
AUDITOR GENERAL

The Auditor General provides independent, unbiased, timely, and relevant information to the Legislature, entity management, and the citizens of the State of Florida which can be used to improve the operations and accountability of public entities.



AUDITOR GENERAL

WILLIAM O. MONROE, CPA



CLAY COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

The Clay County District School Board prepared its basic financial statements for the fiscal year ended June 30, 2005, in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

The District has established and implemented procedures that generally provide for internal control of District operations. The District generally complied with significant provisions of laws, administrative rules, regulations, contracts, and grant agreements. However, we did note internal control and compliance findings that are summarized below.

Summary of Audit Findings

Finding No. 1: Self-Insurance Monitoring

Improvements were needed in District procedures for monitoring workers' compensation and liability insurance claims. The District's service agent performed a review of 23 workers' compensation claims and provided a summary report for each claim; however, documentation supporting the reviewed claims was not subsequently obtained from the service agent and reviewed, and no automobile liability, general liability, and property loss claims were tested. It is necessary to review claims documentation in order to monitor the service agent's performance in paying claims for eligible charges.

Finding No. 2: Information Technology – Disaster Recovery Plan

The District should enhance its security control features for disaster recovery. In the absence of adequate disaster recovery procedures, the District's ability to timely restore critical operations in the event of a disruption may be limited.

Finding No. 3: Ad Valorem Taxation

The District purchased maintenance vehicles costing \$32,594 from its capital outlay tax levy funds. This expenditure appears to be for purposes other than those delineated in Section 1011.71(5)(a), Florida Statutes, in that it does not appear directly related to the delivery of student instruction or for the purchase, lease-purchase, or lease of school buses.

Finding No. 4: Monitoring of Purchased Food Cost per Meal

The District's controls over purchased food costs could be enhanced by implementing cost per meal monitoring procedures. Routine monitoring procedures over per meal food costs could provide management a useful tool for timely identifying inefficient or unauthorized food usage.

Finding No. 5: Contractor Background Screening Requirements

The District should improve its procedures for timely obtaining fingerprints and background checks for contractual personnel that have direct contact with students. Absent timely background screening checks, there is an increased risk that contracted personnel may have backgrounds that are not suitable for direct contact with students.

Finding No. 6: Architect Insurance

District procedures did not ensure that its architectural firms were adequately and properly insured. Section 4.1(2)(f) of the Florida Department of Education's publication, *State Requirements for Educational Facilities - 1999*, recommends that district school boards ensure that their architects carry insurance for errors and omissions or liability, either through board policy or through the advertisement for request for services.

Finding No. 7: Construction Management Entity

The District's monitoring procedures over its construction management entity (CME) for the Lake Asbury Junior High project did not ensure that the payment and performance bond amounts were adequate. Additionally, the District did not ensure that the CME complied with the Board's purchasing policy requiring bids from three or more sources for one purchase exceeding the bid threshold.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I and Special Education Cluster programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested. However, we did note an internal control and compliance finding related to a nonmajor program that is summarized below.

Federal Awards Finding No. 1: Cash Management – Food Service

Contrary to Federal regulations, the District had excess net cash resources of \$767,441 in its Food Services Fund at June 30, 2005.

Audit Objectives and Scope

Our audit objectives were to determine whether the Clay County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established management controls that promote and encourage: 1) compliance with applicable laws, administrative rules, and other guidelines; 2) the economic, effective, and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of law, administrative rules, regulations, and contracts and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Corrected, or are in the process of correcting, all deficiencies disclosed in our report No. 2005-151.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2005. We obtained an understanding of internal control and assessed control risk necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they

were executed, both in manner and substance, in accordance with governing provisions of laws, administrative rules, regulations, contracts, and grant agreements.

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent District records in connection with the application of procedures required by auditing standards generally accepted in the United States of America, applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget *Circular A-133*.

This audit was conducted by Tracy S. Smith, and supervised by John P. Duffy, CPA. Please address inquiries regarding this report to David W. Martin, CPA, Audit Manager, via e-mail at davidmartin@aud.state.fl.us or by telephone at (850) 487-9039.

This report, as well as other audit reports prepared by the Auditor General, can be obtained on our Web site (<http://www.state.fl.us/audgen>); by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

CLAY COUNTY DISTRICT SCHOOL BOARD

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

The Clay County District School Board prepared its basic financial statements for the fiscal year ended June 30, 2005, in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

The District has established and implemented procedures that generally provide for internal control of District operations. The District generally complied with significant provisions of laws, administrative rules, regulations, contracts, and grant agreements. However, we did note internal control and compliance findings that are summarized below.

Summary of Audit Findings**Finding No. 1: Self-Insurance Monitoring**

Improvements were needed in District procedures for monitoring workers' compensation and liability insurance claims. The District's service agent performed a review of 23 workers' compensation claims and provided a summary report for each claim; however, documentation supporting the reviewed claims was not subsequently obtained from the service agent and reviewed, and no automobile liability, general liability, and property loss claims were tested. It is necessary to review claims documentation in order to monitor the service agent's performance in paying claims for eligible charges.

Finding No. 2: Information Technology – Disaster Recovery Plan

The District should enhance its security control features for disaster recovery. In the absence of adequate disaster recovery procedures, the District's ability to timely restore critical operations in the event of a disruption may be limited.

Finding No. 3: Ad Valorem Taxation

The District purchased maintenance vehicles costing \$32,594 from its capital outlay tax levy funds. This expenditure appears to be for purposes other than those delineated in Section 1011.71(5)(a), Florida Statutes, in that it does not appear directly related to the delivery of student instruction or for the purchase, lease-purchase, or lease of school buses.

Finding No. 4: Monitoring of Purchased Food Cost per Meal

The District's controls over purchased food costs could be enhanced by implementing cost per meal monitoring procedures. Routine monitoring procedures over per meal food costs could provide management a useful tool for timely identifying inefficient or unauthorized food usage.

Finding No. 5: Contractor Background Screening Requirements

The District should improve its procedures for timely obtaining fingerprints and background checks for contractual personnel that have direct contact with students. Absent timely background screening checks, there is an increased risk that contracted personnel may have backgrounds that are not suitable for direct contact with students.

Finding No. 6: Architect Insurance

District procedures did not ensure that its architectural firms were adequately and properly insured. Section 4.1(2)(f) of the Florida Department of Education's publication, *State Requirements for Educational Facilities - 1999*, recommends that district school boards ensure that their architects carry insurance for errors and omissions or liability, either through board policy or through the advertisement for request for services.

Finding No. 7: Construction Management Entity

The District's monitoring procedures over its construction management entity (CME) for the Lake Asbury Junior High project did not ensure that the payment and performance bond amounts were

adequate. Additionally, the District did not ensure that the CME complied with the Board's purchasing policy requiring bids from three or more sources for one purchase exceeding the bid threshold.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I and Special Education Cluster programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested. However, we did note an internal control and compliance finding related to a nonmajor program that is summarized below.

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Contrary to Federal regulations, the District had excess net cash resources of \$767,441 in its Food Services Fund at June 30, 2005.

Audit Objectives and Scope

Our audit objectives were to determine whether the Clay County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established management controls that promote and encourage: 1) compliance with applicable laws, administrative rules, and other guidelines; 2) the economic, effective, and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of law, administrative rules, regulations, and contracts and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Corrected, or are in the process of correcting, all deficiencies disclosed in our report No. 2005-151.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2005. We obtained an understanding of internal control and assessed control risk necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, administrative rules, regulations, contracts, and grant agreements.

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent District records in connection with the application of procedures required by auditing standards generally accepted in the United States of America, applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget *Circular A-133*.

This audit was conducted by Tracy S. Smith, and supervised by John P. Duffy, CPA. Please address inquiries regarding this report to David W. Martin, CPA, Audit Manager, via e-mail at davidmartin@aud.state.fl.us or by telephone at (850) 487-9039.

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FINDINGS AND RECOMMENDATIONS

Reportable Conditions

Finding No. 1: Self-Insurance Monitoring

Pursuant to Section 1011.18(6), Florida Statutes, the District contracted with a service agent to administer its workers' compensation, automobile liability, general liability, and property loss coverages. The service agent was responsible for evaluating and paying claims, filing excess insurance claims with reinsurers, and collecting and remitting excess insurance reimbursements to the District. During the 2004-05 fiscal year, the District remitted approximately \$1,260,000 to the service agent for claims payments, including \$1,173,000 for workers' compensation claims.

As similarly noted in our report No. 2005-151, the District did not perform a review of its claims payment documentation for the 2004-05 fiscal year. The District's service agent performed a review of 23 workers' compensation claims and provided a summary report for each claim; however, documentation supporting the reviewed claims was not subsequently obtained from the service agent and reviewed, and no automobile liability, general liability, and property loss claims were tested. It is necessary to review claims documentation in order to monitor the service agent's performance in paying claims for eligible charges. Our tests of claims documentation indicated that claims payments made by the service agent were supported; however, our audit tests cannot substitute for management's responsibility to establish and maintain an adequate system of internal control. Additionally, the District did not require or obtain a service organization report as described in *Statement on Auditing Standards No. 70* (SAS 70). A SAS 70 (service organization) report is a report on the suitability of policies and procedures placed in operation to achieve specified control objectives and tests of operating effectiveness for a service organization.

Recommendation: The District should implement procedures to effectively monitor claims payments processed by the service agent. The District should also require that the service agent provide, through independent auditors, service organization reports covering internal controls over the processing of claims payments.

Finding No. 2: Information Technology – Disaster Recovery Plan

Security control features are necessary to protect the integrity, confidentiality, and availability of information technology systems data and resources. During our audit, we identified improvements that could be made in the District's disaster recovery procedures. Specific details of these improvements are not disclosed in this report to avoid any possibility of compromising District information systems' data and resources. In the absence of adequate disaster recovery procedures, the District's ability to timely restore critical operations in the event of a disruption may be limited. A similar finding was noted in our report No. 2005-151.

Recommendation: The District should improve the appropriate control features to enhance security of District information technology resources.

Other Deficiencies

Finding No. 3: Ad Valorem Taxation

Section 1011.71(2), Florida Statutes, provides that each school board may levy against the taxable value not more than 2 mills for capital outlay purposes. Section 1011.71(5)(a), Florida Statutes, states that it is the intent of the Legislature that, by July 1, 2003, revenue generated by the capital outlay millage levy should be used only for the costs of construction, renovation, remodeling, maintenance, and repair of educational plant; for the purchase, lease, or lease-purchase of equipment, educational plants, and construction materials directly related to the delivery of student instruction; for the rental or lease of existing buildings, or space within existing buildings, originally constructed or used for purposes other than education, for conversion to use as educational facilities; for the opening day collection for the library media center of a new school; for the purchase, lease-purchase, or lease of school buses; and for the servicing of payments related to certificates of participation issued for any purpose prior to the effective date of this act.

Our audit tests disclosed that the District's expenditures of capital outlay millage moneys were generally for authorized purposes. However, we noted that the District purchased vehicles for its maintenance department from the capital outlay tax levy funds at a cost of \$32,594. This expenditure appears to be for purposes other than those delineated in Section 1011.71(5)(a), Florida Statutes, in that it does not appear directly related to the delivery of student instruction or for the purchase, lease-purchase, or lease of school buses.

Recommendation: The District should consider the requirements of Section 1011.71(5)(a), Florida Statutes, when budgeting for expenditures from future millage levies, and establish procedures to monitor the District's compliance with these requirements on a timely basis. Also, the District should restore the questioned expenditures of \$32,594 to the capital outlay millage funds.

Finding No. 4: Monitoring of Purchased Food Cost per Meal

The District's controls over purchased food costs could be enhanced by implementing cost per meal monitoring procedures. The District had 10 stand alone and 11 base kitchens that served its 33 schools. The District's expenditures for purchased food during the 2004-05 fiscal year totaled approximately \$3 million, excluding the cost of commodities obtained from the Federally-funded nutrition programs.

District procedures did not include periodic reviews of the purchased food cost per meal for the District schools to determine whether the per meal purchased food costs were reasonably consistent. Because food costs represent a substantial portion (about one-third) of the total food service costs, it would be beneficial to utilize available cost information to establish cost parameters for comparison purposes between comparable grade levels (elementary, middle, and high); by meal type (breakfast and lunch); and by type of kitchen (stand alone, base, and serving). Our limited comparisons of food costs per meal did not disclose significant variances from Districtwide average costs; however, routine monitoring procedures over per meal food costs could provide management a useful tool for timely identifying inefficient or unauthorized food usage.

Recommendation: The District should strengthen its procedures for monitoring the purchased food cost per meal among the District's schools by establishing cost parameters and analyzing significant variances between actual purchased food cost per meal and these parameters.

Finding No. 5: Contractor Background Screening Requirements

The District should improve its procedures for timely obtaining fingerprints and background checks for contractual personnel that have direct contact with students. Section 1012.465, Florida Statutes (2004), requires that contractual personnel who have direct contact with students be fingerprinted and undergo background screening.

District records did not evidence that fingerprinting and background checks were performed for the personnel of 13 contracted vendors providing services to students during the 2004-05 fiscal year that we selected for review. Upon inquiry, we were advised by District personnel that they were unaware of the need to require the background checks for contracted personnel. Absent timely background screening checks, there is an increased risk that contracted personnel may have backgrounds that are not suitable for direct contact with students. Also, the requirements of the Jessica Lunsford Act, which became effective September 1, 2005, will further impact the need to enhance procedures for timely obtaining fingerprints and background checks for persons under contract with the District. Subsequent to our inquiries, in December 2005, the District began the process of determining the eligibility of the personnel for 8 of the contracted vendors who were not previously cleared to have direct student contact.

Recommendation: The District should enhance its procedures to ensure that required fingerprinting and background checks are performed for contractual personnel on a timely basis.

Finding No. 6: Architect Insurance

District procedures did not ensure that its architectural firms were adequately and properly insured. Section 4.1(2)(f) of the Florida Department of Education's publication, *State Requirements for Educational Facilities - 1999*, recommends that district school boards ensure that their architects carry insurance for errors and omissions or liability, either through board policy or through the advertisement for request for services. During the 2004-05 fiscal year, the District entered into agreements for architectural services related to the \$19 million K-8 Oakleaf School and the \$14 million Coppergate Elementary School construction projects. Our review disclosed that the District did not obtain certificates of insurance from either of the architectural firms, and that neither the architect agreements nor the District's invitations to obtain professional services contained requirements for types and amounts of insurance coverages that should be carried.

The District can limit its exposure to the various risks of possible loss relating to architectural services by establishing procedures to ensure that its contracted firms are adequately and properly insured for coverages such as professional liability; errors and omissions; and general, automobile, and workers' compensation liability.

Recommendation: The District should enhance its procedures to ensure that contracted architectural firms are adequately and properly insured. Additionally, the District should make a determination as to the types and limits of coverage that should be maintained by an architectural firm, such as professional liability; errors and omissions; and general, automobile, and workers' compensation liability coverages, and include those insurance requirements in all invitations to obtain professional services, new agreements, and renewed agreements for architectural services.

Finding No. 7: Construction Management Entity

Section 1013.45(1)(c), Florida Statutes, authorizes district school boards to contract for the construction or renovation of facilities with a Construction Management Entity (CME). The CME would be responsible for all scheduling and coordination in both design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. The Statute further provides that the CME may be required to offer a guaranteed maximum price (GMP). The GMP provision allows for the difference between the actual cost of the project and the GMP amount, or the net cost savings, to be returned to District. The District's Facility Planning and Construction Department is responsible for construction project administration, including monitoring CME activities and reviewing documentation submitted in support of payment requests.

In our report No. 2005-151, we noted certain deficiencies in the District's monitoring of the CME for the new Lake Asbury Junior High project. The project was subsequently completed and accepted by the Board effective July 1, 2005. Our current review disclosed the following:

- The District did not ensure that the CME payment and performance bond amounts were adequate. Sections 1013.47 and 255.05, Florida Statutes, require a payment and performance bond when a governmental entity contracts to construct, remodel, or renovate a facility where the project cost exceeds \$200,000. Section 4.2(1)(a), *State Requirements for Educational Facilities - 1999*, requires that each bond shall equal 100 percent of the contract amount. In our prior report, we noted that the payment and performance bonds provided by the CME were for \$15,000,000 each, which was less than the GMP of \$15,533,757. Our current review disclosed that the CME payment and performance bonds were subsequently increased to \$15,533,757 each; however, the GMP contract amount was also subsequently increased by change orders to \$16,721,541, or \$1,187,784 more than the payment and performance bonds. When a bond is insufficient, the District is not fully protected in the event the CME fails to pay the subcontractors or complete the project.
- The District did not ensure that the CME complied with applicable Board policy for one purchase. The Board approved a \$230,802 change order for the CME to administer the purchase of food service equipment costing \$219,450, with an additional fee of \$11,352 for the CME's labor, bonds, insurance, and profit. Board Policy 5.02, *Purchasing*, requires that bids be requested from three or more reputable sources for any authorized purchase of \$25,000 or more. However, our review disclosed that the CME did not obtain bids from three or more sources, but instead obtained quotes from two vendors, one of which was the low bidder for other food service equipment and who provided the low quote for this purchase. Additionally, considering that the payment and performance bonds were not increased for change orders as discussed above, it is not evident that bonds and insurance comprising \$4,404 of the CME fee for this purchase were actually acquired.

Recommendation: The District should enhance its monitoring procedures for CME agreements to ensure the adequacy of payment and performance bonds, and to ensure that purchases comply with applicable Board policy. Additionally, the District should obtain documentation that the CME acquired the bonds and insurance from the \$4,404 fee paid, or request a refund.

PRIOR AUDIT FINDINGS

Except as discussed in the preceding paragraphs, the District corrected the deficiencies and exceptions cited in our report No. 2005-151.

MANAGEMENT RESPONSE

In accordance with the provisions of Section 11.45(4)(d), Florida Statutes, a list of audit findings and recommendations was submitted to members of the Clay County District School Board and the Superintendent. The Superintendent's written response to the audit findings and recommendations included in this report is shown on pages 62 through 70.

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS***MANAGEMENT'S DISCUSSION AND ANALYSIS******BASIC FINANCIAL STATEMENTS***

EXHIBIT - A *Statement of Net Assets.*

EXHIBIT - B *Statement of Activities.*

EXHIBIT - C *Balance Sheet - Governmental Funds.*

EXHIBIT - D *Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.*

EXHIBIT - E *Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.*

EXHIBIT - F *Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.*

EXHIBIT - G *Statement of Net Assets - Proprietary Fund.*

EXHIBIT - H *Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Fund.*

EXHIBIT - I *Statement of Cash Flows - Proprietary Fund.*

EXHIBIT - J *Statement of Fiduciary Assets and Liabilities - Fiduciary Funds.*

EXHIBIT - K *Notes to Financial Statements.*

OTHER REQUIRED SUPPLEMENTARY INFORMATION

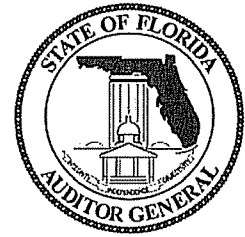
EXHIBIT - L *Budgetary Comparison Schedule - General Fund.*



WILLIAM O. MONROE, CPA
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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Clay County District School Board as of and for the fiscal year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed on page 6. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 15 percent of the assets and 32 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the Clay County Education Foundation, Inc., a discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been provided to us, and our opinion on the basic financial statements, insofar as it relates to the amounts included for the school internal funds and the discretely presented component unit, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the school internal funds and the Clay County Education Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

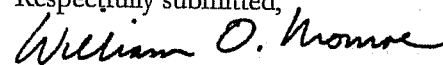
In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Clay County District School Board as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Clay County District School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, administrative rules, regulations, contracts, and grant agreements included under the heading ***INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (pages 9 through 16) and the Budgetary Comparison Schedule (shown as exhibit L) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the United States Office of Management and Budget's *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,



William O. Monroe, CPA
January 19, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management of the Clay County District School Board has prepared the following discussion and analysis to (a) assist the reader in focusing on significant financial issues; (b) provide an overview and analysis of the District's financial activities; (c) identify changes in the District's financial position; (d) identify material deviations from the approved budget; and (e) highlight significant issues in individual funds.

Because the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions, it should be considered in conjunction with the District's financial statements and notes to financial statements found on pages 17 through 51.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2004-05 fiscal year are as follows:

- The District's assets exceed its liabilities at June 30, 2005, by \$278,667,790.59 (net assets).
- In total, net assets increased \$18,283,142.06, which represents a 7 percent increase from the 2003-04 fiscal year.
- General revenues total \$202,203,690.28, or 88 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$27,836,988.02, or 12 percent.
- Expenses total \$211,757,536.24. These expenses were offset by the \$27,836,988.02 of program specific revenues, with the remainder paid from general revenues. Total revenues exceed total expenses by \$18,283,142.06.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, total \$12,580,985.49 at June 30, 2005, or 7 percent of total General Fund expenditures. The unreserved fund balance increased by \$2,389,573.31 from the 2003-04 fiscal year.
- The District's investment in capital assets increased by a net amount of \$27,052,011.15, or 10 percent, as compared to the June 30, 2004, balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- Government-wide financial statements.
- Fund financial statements.
- Notes to financial statements.

Government-Wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to a private-sector business. The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the activities of the primary government presented on the accrual basis of accounting. The statement of net assets provides information about the government's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets,

is a measure of the financial health of the District. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the District's financial health is improving or deteriorating.

The government-wide statements present the District's activities in two categories:

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Component units – This category includes the Clay County Education Foundation, Inc. (a direct support organization). Although a legally separate organization, this component unit is included because it meets the criteria for inclusion provided by generally accepted accounting principles. The financial information for this component unit is reported separately from the financial information presented for the primary government.

The Clay School Board Leasing Corporation (Leasing Corporation), although also a legally separate entity, was formed to facilitate financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the District and the Leasing Corporation, the Leasing Corporation has been included as an integral part of the primary government.

Fund Financial Statements

Fund financial statements are one of the basic financial statement components. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and prudent fiscal management. Certain funds are established by law while others are created by legal agreements, such as bond covenants. Fund financial statements provide more detailed information about the District's financial activities, focusing on its most significant or "major" funds. This is in contrast to the entity-wide perspective contained in the government-wide statements. All of the District's funds may be classified within one of three broad categories as discussed below.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. The financial resources measurement focus allows the governmental funds statements to provide information on short-term inflows and outflows of spendable resources, as well as balances of spendable resources available at fiscal year-end.

The governmental funds statements provide a detailed short-term view that may be used to evaluate the District's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to governmental activities.

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, Debt Service – Other Debt Service Fund, Capital Projects - Local Capital Improvement Fund, and Capital Projects - Other Capital Projects Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The District adopts and maintains annual budgets for its governmental funds. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget.

Proprietary Funds. Proprietary funds use the economic resources measurement focus and accrual basis of accounting. The District maintains one proprietary fund, an internal service fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses its Internal Service Fund to account for its self-insurance program. Since this service predominantly benefits governmental-type functions, the Internal Service Fund has been included within governmental activities in the government-wide financial statements.

Fiduciary Funds. Fiduciary funds are used to report assets held in a trustee or fiduciary capacity for the benefit of external parties, such as school and activity funds, commonly called the school internal funds. Fiduciary funds are not reflected in the government-wide statements because the resources are not available to support the District's own programs. In its fiduciary capacity, the District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes.

The District uses its Agency Funds to account for resources held for school activities and groups.

Notes to Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 2005, compared to net assets as of June 30, 2004:

	Net Assets, End of Year	
	Governmental Activities	
	6-30-05	6-30-04
Current and Other Assets	\$ 62,995,193.80	\$ 72,511,450.34
Capital Assets	301,607,414.66	274,555,403.51
Total Assets	364,602,608.46	347,066,853.85
Long-Term Liabilities	77,408,149.59	78,195,997.17
Other Liabilities	8,526,668.28	8,486,208.15
Total Liabilities	85,934,817.87	86,682,205.32
Net Assets:		
Invested in Capital Assets -		
Net of Debt	243,324,908.66	214,509,144.51
Restricted	26,582,839.61	38,489,837.37
Unrestricted	8,760,042.32	7,385,666.65
Total Net Assets	\$ 278,667,790.59	\$ 260,384,648.53

The largest portion of the District's net assets (87 percent) reflects its investment in capital assets (e.g., land, buildings, furniture and equipment), less related debt outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District's net assets (10 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets (3 percent) may be used to meet the District's ongoing obligations to students, employees, and creditors.

The District's net assets increased by \$18,283,142.06 during the 2004-05 fiscal year. The increase represents the degree to which ongoing revenues have exceeded ongoing expenses. Details of the revenues and expenses comprising the increase are as follows:

	Operating Results for the Fiscal Year Ended	
	Governmental Activities	
	6-30-05	6-30-04
Program Revenues:		
Charges for Services	\$ 5,163,259.51	\$ 4,868,951.85
Operating Grants and Contributions	10,814,600.14	10,343,787.36
Capital Grants and Contributions	11,859,128.37	15,623,360.05
General Revenues:		
Property Tax Levied for Operational Purposes	40,329,443.37	36,476,716.62
Property Tax Levied for Capital Projects	12,440,530.10	11,001,438.04
Local Sales Taxes	1,620,192.98	1,406,469.59
Grants and Contributions Not Restricted to Specific Programs	144,421,807.94	135,557,042.94
Unrestricted Investment Earnings	1,592,019.62	1,049,474.47
Miscellaneous	1,799,696.27	1,250,074.18
Total Revenues	230,040,678.30	217,577,315.10
Functions/Program Expenses:		
Instruction	119,780,627.04	104,949,903.03
Pupil Personnel Services	10,849,707.83	9,934,584.48
Instructional Media Services	4,305,311.96	4,086,543.75
Instruction and Curriculum Development Services	5,066,581.52	4,866,115.33
Instructional Staff Training	2,245,247.53	1,855,989.50
Board of Education	1,165,134.54	1,109,319.17
General Administration	967,823.35	765,282.52
School Administration	9,614,973.64	8,921,365.82
Facilities Acquisition and Construction	3,311,452.63	3,376,077.12
Fiscal Services	534,176.00	517,914.13
Food Services	8,496,263.72	7,333,047.74
Central Services	4,664,236.73	4,280,450.87
Pupil Transportation Services	10,728,144.98	9,647,627.07
Operation of Plant	12,902,074.37	12,191,508.47
Maintenance of Plant	4,223,338.98	3,761,370.07
Community Services	330,824.74	358,624.45
Interest on Long-Term Debt	3,217,132.70	3,865,830.78
Unallocated Depreciation Expenses	9,354,483.98	8,884,592.54
Total Functions/Program Expenses	211,757,536.24	190,706,146.84
Increase in Net Assets	\$ 18,283,142.06	\$ 26,871,168.26

The majority of the District's revenues for current operations are provided through the State's Florida Education Finance Program (FEFP), State categorical educational programs, and local property taxes. These revenues are included in general revenues, which provide about 88 percent of total revenues, whereas program revenues provide only about 12 percent. The majority of program revenues (90 percent) are in the facilities acquisition and construction, food services, and pupil transportation services activities.

The FEFP funding formula is used to allocate State revenue sources for current District operations and, utilizing student enrollment data, is designed to maintain equity in funding across all Florida school districts considering funding ability based on taxable local property values. The District experienced increases in student enrollment, FEFP funding, categorical educational program funding, and local property tax revenues during the 2004-05 fiscal

year. Student enrollment increased by 1,294 students, from 30,942 in the 2003-04 fiscal year to 32,236 in the 2004-05 fiscal year, and FEFP funding, categorical educational program funding, and local property tax revenues increased by \$4,919,059, \$6,768,143.08, and \$5,291,818.81, respectively, as compared to the 2003-04 fiscal year.

Instructional activities represent the majority of the District's expenses, totaling approximately 55 and 57 percent, respectively, of total governmental expenses in the 2003-04 and 2004-05 fiscal years. Overall, total expenses increased \$21,051,389.40, or 11 percent, as compared to total revenues which increased \$12,463,363.20, or 6 percent.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance is \$12,580,985.49, while the total fund balance is \$20,898,485.23. The unreserved fund balance represents 7 percent of total General Fund expenditures, while the total fund balance represents 12 percent of such expenditures. The unreserved fund balance increased by \$2,389,573.31, while the total fund balance increased by \$2,887,040.36 during the fiscal year. Key factors are as follows:

- Total revenues exceeded total expenditures by \$47,337.90. Other financing sources totaled \$2,685,372.84.
- Total revenues increased by \$16,483,426.93, or 10 percent, mainly from increases in State FEFP funding, State categorical educational programs, and local property taxes.
- Total expenditures increased by \$20,735,848.33, or 13 percent, mainly due to increases in salaries and benefits expenditures.
- Other financing sources increased by \$221,738.02, or 9 percent, due mainly to increased transfers from the Capital Projects Funds.
- Inventories increased by \$154,329.62, which increased fund balance by an equal amount under the purchases method of inventory accounting used in the General Fund.
- The Reserve for State Categorical Programs increased by \$580,111.82. The reserved amount is required to be carried forward to the following year to be expended for specific categorical educational programs. An increase in the reserved amount equally offsets unreserved fund balance.

The Debt Service – Other Debt Service Fund is used to account for financial resources used to pay debt principal, interest, and related costs for the Certificates of Participation. The Fund maintains a small fund balance (\$10,229.30 at June 30, 2005), all of which is reserved for the payment of debt service.

The Capital Projects – Local Capital Improvement Fund has a fund balance of \$5,968,571.14, all of which is required to be spent for the acquisition, construction, and maintenance of capital assets. The net decrease in fund balance during the current year in this Fund was \$2,699,763.08, and resulted primarily from the expenditure of funds for major maintenance and facilities construction.

The Capital Projects – Other Capital Projects Fund is mainly used to account for the financial resources received from local impact fees, local sales taxes, Class Size Reduction Lottery Capital Outlay Program funds (Classrooms for Kids), certificates of participation (COP) proceeds, and other miscellaneous sources. The Fund has a total

fund balance of \$13,874,570.86. The total fund balance decreased by \$8,036,978.50 in the current year, mainly from expenditures for new school construction.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the 2004-05 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted revenues of \$2,035,707. Similarly, final expenditure appropriations increased by \$1,593,355.90 from the original budgeted amount. These budget revisions represent about a 1 percent increase from the respective original budgets, and were necessary to adjust planned revenues and expenditures based on actual resources and resource needs.

Actual revenues were slightly more than final budgeted amounts, whereas actual expenditures were \$9,150,878.77, or 5 percent, less than anticipated. Since actual expenditures were well within budgetary estimates, unexpended appropriations were available to increase fund balances. Accordingly, the actual ending fund balance exceeded the final amended budget fund balance by \$10,083,430.58.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets (net of accumulated depreciation) for its governmental activities as of June 30, 2005, is \$301,607,414.66. The capital assets include land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; construction in progress; and audio visual materials and computer software.

The investment in capital assets increased by a net amount of \$27,052,011.15, or 10 percent, as compared to the June 30, 2004, balance. Major capital asset events during the current fiscal year included completion of Lake Asbury Junior High and Argyle Elementary Schools, and the planning and design for construction of the new Coppergate Elementary and K-8 Oakleaf Schools. The District also purchased 80 relocatable classroom buildings.

Additional information on the District's capital assets is shown in Note 6 to the financial statements (exhibit K).

Long-Term Debt

At June 30, 2005, the District has total long-term debt outstanding of \$58,282,506. This amount is comprised of \$47,282,506 of Certificates of Participation, \$9,035,000 of State School Bonds, and \$1,965,000 of District Revenue Bonds. During the year, the District retired debt totaling \$1,763,753.

Additional information on the District's long-term debt is shown in Notes 7 through 10 to the financial statements (exhibit K).

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Clay County District School Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant Superintendent for Business Affairs, Clay County District School Board, 900 Walnut Street, Green Cove Springs, FL 32043.